

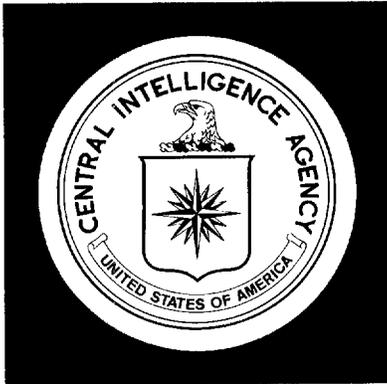
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Weekly Summary

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No. 0040/76

October 1, 1976

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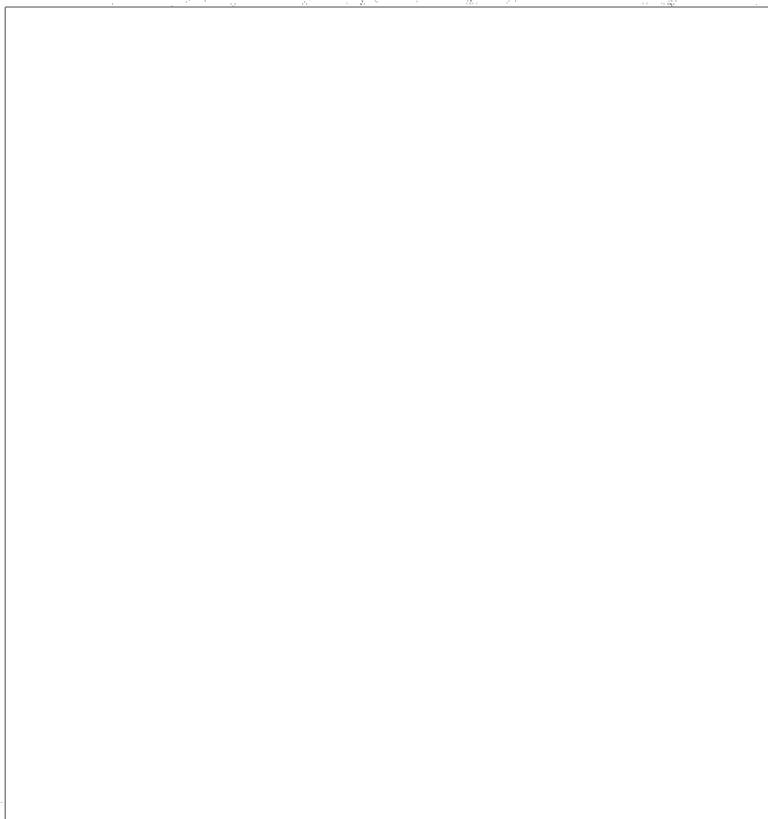


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October 1, 1976

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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1 Middle East - Africa

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary [redacted]

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Middle East-
Africa

LEBANON

1-2

Syrian forces in Lebanon and their Christian allies this week initiated a new military offensive aimed at dislodging the Palestinians from the central mountains. There are indications that Syria intends to mount subsequent drives to capture the port city of Tripoli and to cut off the flow of arms and other supplies moving from Sidon and Tyre to west Beirut—the main bastion of the Palestinians and their Lebanese allies—if the Palestine Liberation Organization does not bow to Syrian terms for a cease-fire.

Within 48 hours after the attack began on September 28, Syrian forces were clearly gaining the upper hand. Several important Palestinian strongholds fell on September 29, including the villages of Aynturah and Tarshish, which control the

road linking the Christian “capital” at Juniyah and the Syrian-occupied Bekaa Valley. The Syrians may plan to push west to occupy Alayh from where they can put pressure on leftist leader Kamal Jumblatt’s Druze stronghold just a few miles to the south.

PLO chairman Yasir Arafat sent urgent appeals to Egyptian President Sadat, Saudi King Khalid and other Arab leaders asking them to intervene and put a stop to the fighting.

Syrian and Christian insistence on an unconditional Palestinian pullback from the mountains was one of the principal stumbling blocks in talks with Arafat just before President Sarkis’ inauguration last week. Although the Syrians were convinced then that Arafat was stalling, they apparently had intended to give Sarkis more time to seek a negotiated settlement. A Palestinian commando attack on a Damascus hotel last weekend, however, gave them a pretext to resume the fighting.

The Syrian offensive has damaged Sarkis’ standing as an independent

negotiator, although he has tried to salvage some credibility, especially with the leftists, by attempting to arrange a cease-fire between the Syrians and Palestinians. The Syrians, who backed Sarkis for the presidency, apparently concluded that his position and theirs would be stronger in the long run if they succeeded in forcing the PLO to accept their conditions for a political accord.

Egypt’s President Sadat has condemned the Syrian attack and called publicly for Sarkis and Arafat to meet with the leaders of Egypt, Syria, Saudi Arabia, and Kuwait in a mini-summit to try to resolve the Lebanese conflict. Syrian President Asad is likely to resist pressures on him to attend such a gathering, at least until his forces have achieved their main objectives on the ground.

4; 6-7 Soviets Continue To Hold Back Criticism

The USSR continues to hold back criticism of Syrian actions in Lebanon. This week, it not only refrained from openly criticizing the new Syrian offensive in the Mount Lebanon area, but for the first time made a gesture of support for Syria’s position.

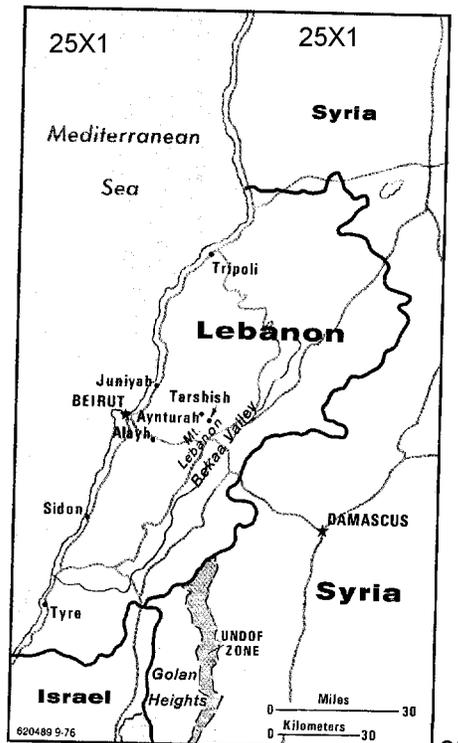
On September 22, *Pravda* carried a news report on President Asad’s speech to his troops near the Israeli border. It included Asad’s rationale for the presence of Syrian troops in Lebanon as well as his specific criticism of the role of the Palestine Liberation Organization in Lebanon.

Any sign of support for Asad is bound to displease the PLO, which had already voiced misgivings about an “Observer”

article in *Pravda* on September 8 upbraiding “leftist elements” of the PLO along with the Syrian government for failing to achieve a cease-fire.

The USSR seems to be facing the realities of the Lebanese situation. Soviet Foreign Minister Gromyko told the UN General Assembly on September 28 that the Lebanese crisis would have to be settled by the Lebanese themselves without outside interference. A Soviet official in Cairo said last week, on the other hand, that the Soviets believe it is necessary for the Syrians to remain in Lebanon if a settlement is to be achieved.

Soviet arms carriers continued to arrive at Syrian ports during August and September.



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Joshua Nkomo

that he is now trying to increase.



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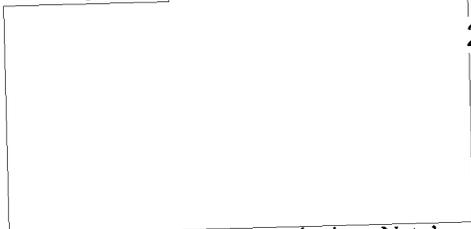
ANGOLA-USSR

N.S.

Angolan President Neto will pay an official visit to the USSR early this month, according to an announcement from Moscow. The visit will be in response to a Soviet invitation issued last May, when Angolan Prime Minister Nascimento was in Moscow seeking additional Soviet assistance. The USSR, along with Cuba, remains Angola's principal source of aid.

Neto will use the visit to seek clarification of the Soviet role in Angola's development.

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From the Soviet standpoint, Neto's visit probably could not be better timed. It presents Soviet leaders with an opportunity to press their attack against US and British efforts toward a Rhodesian settlement.

Neto will probably be cautious, however, about associating himself with any Soviet criticism that could put him out of step with other front-line African presidents because he values his newly acquired status as a member of their group.

The visit could be offset somewhat by Angola's resumption of diplomatic ties with Portugal, which is likely at about the same time. The Angolan and Portuguese foreign ministers were to meet in Cape Verde on September 30 to work out final arrangements. Neto is anxious to resume the ties to balance his foreign relations and broaden his sources of assistance.

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RHODESIA

8-19

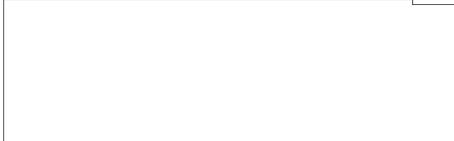
The announcement on September 29 that the UK will convene a conference to discuss formation of an interim government for Rhodesia was doubtless welcomed by the "front-line" African presidents. They had been pressing for an early start to the process of developing the institutions for majority rule in Rhodesia.

The "front-line" presidents recognize that the continuing rivalry among Rhodesian black nationalist factions could now become an especially unsettling factor as the prospects increase for negotiations toward majority rule.



Robert Mugabe, who has emerged as the chief spokesman for ZANU, met this week in Lusaka with ZAPU representatives. ZAPU leader Joshua Nkomo, who has been in Rhodesia conferring with members of his faction, reportedly will

join in talks when they convene soon



Nkomo is more widely known than Mugabe, and Nkomo's ZAPU apparently has a stronger political organization inside Rhodesia than does Mugabe's ZANU. Most of the guerrilla forces are loyal to ZANU, but the faction's leadership is more fragmented.

Although the two factions are under strong pressure from the presidents, their talks could be difficult, and there is no assurance that any alliance would last long. ZAPU will seek to protect its political position, while ZANU tries to exploit its greater military strength. In this vein, Mugabe told the press this week that the settlement proposals are unacceptable unless the guerrilla forces take control from the present Rhodesian army under an interim government.

The third major nationalist leader, Bishop Abel Muzorewa, seems to have been excluded from the presidents' unity efforts. Muzorewa has virtually no guerrilla forces of his own, but does have some political standing inside Rhodesia

ETHIOPIA

15-21

The assassination attempt on September 23 against Major Mengistu Hailemariam, the powerful first vice chairman of the ruling military council, may have resulted from the council's crackdown on the extreme leftist Ethiopian People's Revolutionary Party. The crackdown has been under way for several weeks.

Mengistu was slightly wounded in the attempt, which occurred when his car was ambushed in Addis Ababa. The assailants escaped, but the military council clearly believes the Revolutionary Party was behind it.

The party, an apparently well-organized clandestine organization, with its strength among trade unionists, teachers, and students, demands an immediate return to civilian rule. Its other goals differ little from those of the leftist military regime.

Despite continuing arrests of party adherents and harsh attacks on the group in the government-controlled media, there were student demonstrations and numerous brief work stoppages in Addis Ababa last week. The council responded by threatening to shoot strikers and by bringing elite military units into the city to handle any additional demonstrations. The city has been quiet since late last

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week; the reopening of schools, which the government feared would spark renewed unrest, was postponed.

Some of the unrest in the capital last week may have been due to popular dissatisfaction with the government's recent monetary reform program, which requires the exchange of old currency and imposes service charges for the redemption of bills of high denominations.

The council's tough stand against the Revolutionary Party suggests that the regime takes seriously reports that the party has been gaining supporters—even within the armed forces—and that it intends to initiate a campaign of urban terrorism.

Europe

UK

27-30

Chancellor of the Exchequer Denis Healey announced on September 29 that Britain would apply to the International Monetary Fund for \$3.9 billion in additional credit in an effort to reverse the downward slide in sterling.

According to Healey, the maximum amount Britain can still obtain under its credit arrangements with the IMF is \$3.9 billion. Last May, Britain borrowed \$810 million against its total limit of \$4.7 billion.

Conservative Party leaders are blaming Labor for sterling's problems. Tory proposals to save the pound include massive public spending cuts and compulsory wage controls. Callaghan and Healey would prefer to avoid such a course for fear of alienating key trade union allies whose support is instrumental in keeping potentially rebellious left-wing Laborites in line in Parliament.

The IMF will probably press for continued restraints on public spending and growth in the money supply. It may demand fiscal measures beyond those

already planned for the fiscal year beginning next April. Stringent measures calling for massive public spending cuts or tax increases, however, seem out of the question in the light of Britain's 30-year high unemployment level.

While the IMF loan will allow the UK to repay \$1 billion expended under a \$5.3 billion credit standby arranged by the Bank of International Settlements and the Group of Ten and once again intervene on the foreign exchange market in support of sterling, it will provide no long-lasting relief. In the first eight months of the year Britain spent over \$5 billion in support of the pound but failed to keep sterling from dropping.

Unless some major structural changes take place, there will continue to be a general lack of confidence in Britain's future, encouraging sterling holders to sell the currency.

31-34
Labor Party Conference

Economic issues, including the run on sterling, were the focus of attention at the annual Labor Party conference this week. The debate, which was intense and often critical of the Callaghan government, reflected the clash between cherished socialist principles and stringent government economic policies designed to cope with recession and inflation. Other important conference topics were home rule for

Scotland, elections to the European Parliament, defense spending, race relations, nationalization, and education.

Prime Minister Callaghan adroitly used preconference planning sessions to minimize the leftist minority's opportunity to embarrass the government. Callaghan will be able to live with most of the conference's recommendations on economic policy. The only real setback was a resolution calling on the government to reverse its plans to cut the 1977-1978 budget.

Conference decisions are not binding on Labor administrations, and the resolutions this week are not likely to cause Callaghan to shift course. He may make some minor adjustments, but the government will continue to give priority to fighting inflation.

The left wing demonstrated again its ability to harass the government and its allies in the Trades Union Congress, but as long as key union leaders like Jack Jones stick with Callaghan, he will be able to rein in potentially rebellious left-wing Laborites in Parliament.

Government-union tensions, nevertheless, are developing over unemployment and the hardships imposed by two wage-restraint agreements. The leftists sense the government's vulnerability on unemployment and are directing a

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telling attack on Callaghan over the high jobless rate that is still rising. If the leading economic indicators do not soon justify Callaghan's economic strategy, his union support will begin to ebb and left-wing influence will rise.

been an acerbic critic of the government's economic strategy.

The conference voted to set up a working group to consider widening the electorate involved in selecting a Labor Party leader. The leader is now chosen by Labor members of Parliament in a secret ballot. Atkinson, who favors a more open process involving party rank and file, will use his new influence to advance this position.

- A package of fiscal measures that amounts to a moderate tax increase hitting higher income groups and business.
- Imposition of an anti-inflation tax on business.
- Slower monetary growth.
- Measures to increase investment in plant and equipment.
- A \$1.2-billion aid package for drought-stricken farmers.

Notable for its absence was any mention of controls on wages, which have been rising recently at a 17-percent annual rate. The government, however, will try to set an example in its own wage negotiations.

The price freeze should have a positive short-term impact, holding consumer price increases near zero during the last quarter of the year. To slow retail price increases after the freeze expires, the value-added tax will be cut on a wide range of products.

Neither of these temporary measures, however, will directly affect the underlying causes of inflation.

The real test of the program will come next spring. Barre hopes that the projected sharp improvement this fall will reduce expectations about future inflation and thus induce both business and labor to behave more moderately.

Tax increases—including a 4-percent boost in the corporate rate, and a 4- to 8-percent increase for higher income individuals—will also help somewhat, but are not sufficient in themselves to change the basic inflation picture. At best they may help bring the government budget back into equilibrium in 1977, following a moderate deficit this year.

Potentially more significant is the new anti-inflation tax on business. A uniquely French innovation, the tax is intended to dissuade firms from raising prices and indirectly to force them to take a firmer stance in wage negotiations.

On balance, the French inflation rate during 1977 should be lowered by the new program. The rate will still be high, however, possibly close to 10 percent.

FRANCE

35-36

Prime Minister Raymond Barre announced September 22 his much heralded economic program that is aimed mainly at bringing the French inflation rate out of the double-digit range.

The main features of the program are:

- A three-month freeze on most prices.



Sampling of London headlines on September 28

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SCANDINAVIA 91-44

Politicians were particularly busy during the week in two of the Scandinavian countries.

Minority Government in Finland

The three centrist parties of the old five-party coalition agreed this week to form a minority government with Martti Miettunen resuming his role as prime minister. The "new" coalition will have only 58 seats in the 200-seat parliament.

The focus of attention in coming weeks will be the municipal elections on October 17 and 18. The USSR will be watching these contests for signs of a conservative shift—similar to the one in Sweden recently—that could affect its relationship with the Finnish government. Polls this summer indicated a decline in the leftist parties' popularity and an increase in support for the bourgeois parties in Finland.

Negotiations in Sweden

Sweden's three bourgeois parties continued negotiations this week for a coalition government, and the signs suggest long-standing differences between the Conservatives and the two centrist parties have not been resolved.

Gosta Bohman, leader of the Conservative Party, has been excluded from some of the talks between the two centrist leaders. Thorbjorn Falldin, leader of the Center Party and likely new prime minister, said that he and Liberal Party chief Par Ahlmark must first agree on basic issues before holding extensive talks with the Conservatives.

The Conservatives reportedly will not hold out for major concessions that might force the centrists to turn to an alliance with the Social Democrats. The negotiations may be difficult, but the three parties still hope to agree on a formal coalition before October 4, the deadline for announcing a government to the new parliament.

N.S. **Supreme Soviet to Meet This Month**

The USSR Supreme Soviet will meet in Moscow on October 27, according to an official announcement late last week. The main item on the agenda will be final approval of the five-year plan (1976-1980), which was presented in draft form to the 25th party congress last spring.

By protocol, Premier Kosygin should address the meeting and present the plan. The announcement of a date for the session suggests that his doctors have determined that he will be well enough to participate.

Kosygin has not appeared in public since July 22 [redacted]

[redacted] General Secretary Brezhnev told former ambassador Averill Harriman last week that Kosygin would be returning to work "in several weeks."

The Supreme Soviet session will

probably be preceded by a meeting of the party Central Committee to put the party's stamp of approval on the five-year plan. A Central Committee plenum would also provide an opportunity to make changes in the top leadership.

One change may be the promotion of Nikolay Tikhonov to Politburo membership. He was recently appointed a first deputy premier, presumably to help lighten the workload of the ailing Kosygin. The appointment of Tikhonov to Politburo status would put him on a par with Kirill Mazurov, the other first deputy premier.

We think Defense Minister Ustinov will be formally dropped from the party Secretariat. He has not been identified as a member of the Secretariat since he became defense minister last April.

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East Asia-
Pacific

CHINA

53-58

The Chinese leadership seems to be having difficulty resolving immediate issues less important than the succession. The mourning period for Mao Tse-tung has been extended—unofficially at least—until October 9, and this may give the leadership extra time to decide on the disposition of Mao's body. There are rumors within China that the remains will be placed on view in a mausoleum. The absence of an announcement to this effect may indicate some disagreement over the location—and perhaps over whether to preserve the body at all.

The extended mourning period has also given the Chinese an official excuse to cancel the National Day celebrations of October 1. There may well be political motivations behind this decision. The last time these festivities were canceled was in 1971, after the "coup" attempt by Lin Biao; the official explanation at that time was that the Chinese were trying to con-

serve money.

There has been some pulling and hauling—which began before Mao's death—over naming Politburo member Wu Te to the post of chairman of the National People's Congress, the de facto head of state. Although some foreign embassies in Peking have been advised that Wu is acting as chairman, he has only occasionally performed the duties of that office.

The party's left wing may be trying to block his promotion, which could entitle him to a place on the Politburo's elite Standing Committee. The Standing Committee, which seems to be ruling China collectively, has only one rightist among its four members and two leftists.

Some leftists have adopted a higher profile since Mao's funeral. Standing Committee member Chang Chun-chiao, the leader of the party's left wing, has been the most visible of Chinese leaders since the funeral and seems to be taking a more active role in foreign affairs. Mao's widow, Chiang Ching, received unusual media attention when *People's Daily* on September 25 carried numerous condolence messages addressed solely to her from foreign heads of state and their wives.

The nearly two-week delay in publishing the messages suggests there may have been some sensitivity about giving such prominence to the unpopular Chiang Ching.

N.S.
Soviet Tone Conciliatory

Soviet propaganda on China continues in the conciliatory vein adopted since the death of Mao Tse-tung.

The marked shift probably is intended to encourage any of Mao's successors who may be inclined toward less hostile relations with the USSR, or failing that, at least to build a public case that the USSR has done everything possible to improve relations with China.

Because it has no real idea where in China's bureaucracy the less anti-Soviet individuals are located, Moscow is trying to appeal to all Chinese who might figure in the succession struggle.

To attract Chinese party members, the Soviets are praising the accomplishments of the Eighth Chinese Party Congress in 1956. Government bureaucrats probably are the intended audience for Soviet propaganda highlighting past Soviet-Chinese cultural and scientific cooperation and Moscow's role in the development of various sectors of China's industry.

The Soviets have not neglected China's military, which they have long maintained will probably be decisive in determining the outcome of the succession struggle.

The USSR has also broadcast items intended to encourage the Chinese to reassess the Soviet-Chinese-US relationship and to exploit or create Chinese frustration with lack of movement in Sino-US relations.

On September 16, for example, a broadcast to China gave details of an alleged recent increase in US military aid to the government on Taiwan and reminded the Chinese that the USSR had always supported China's "just demand" for the return of Taiwan.

China's continuation of its anti-Soviet propaganda has apparently had little effect thus far on Soviet propaganda, probably because Moscow believes China's new leaders have not yet had time

61-62;64

Thailand: Seni Pramot Reappointed

The reappointment of Seni Pramot as Prime Minister two days after his abrupt resignation foreshadows the continuation of vacillating and unstable government. Seni is attempting to form a new cabinet from the same four parties that comprised the old coalition.

These parties have agreed to join the government, but Seni's position is complicated by threats from the leftist (and strongest) faction in his own Democrat Party to defect if the old coalition is reconstructed. Seni's initial attempt to join forces with his brother Khukrit's Social Action Party fell afoul of the intense opposition of the rightist faction in the Democrat Party.

The basic problems of Seni's government—a weak prime minister, attempts by rival political leaders to manipulate him, and the factional struggles within the Prime Minister's own party—are clearly unresolved. The return of former prime minister Thanom illustrates the difficulty of Seni's position.

He is caught between the conservatives who sympathize with Thanom and liberals who demand his expulsion. The absence of serious unrest thus far has permitted Seni to waffle—a tack he usually follows until a problem reaches crisis proportions and generates a consensus for action.

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to sort themselves out. If the Chinese continue to go out of their way to express their antipathy toward the USSR, however, the new Soviet line might change. [redacted]

59

JAPAN-CHINA-USSR

Foreign Minister Kosaka is sounding out China on the possibility of a compromise on the anti-hegemony clause—the implicitly anti-Soviet formulation that is the only remaining obstacle to a Sino-Japanese peace and friendship treaty. Kosaka plans to discuss the topic with Chinese Foreign Minister Chiao Kuan-hua at the UN this weekend.

Kosaka, long a supporter of compromise on the hegemony issue, is highly regarded in Peking, and he apparently intends to inject some forward movement in relations with China. He reportedly won Prime Minister Miki's agreement to a free hand on China policy before accepting the post in Miki's cabinet three weeks ago.

Miki himself said on September 27 that he sees no "fundamental difficulty" in including an anti-hegemony clause in the treaty, and he may hope that Kosaka's reputation combined with Chairman Mao's death and the new strains in Japan's relations with the USSR, will prompt some conciliatory response from Peking. We see no signs, however, that the Chinese intend to modify their insistence on unqualified Japanese acceptance of the clause.

Resistance from opponents of compromise with China—and from Miki's own rivals within the Liberal Democratic Party—have stalled negotiations on the treaty for almost two years. Miki may now believe he can overcome the resistance and at the same time strengthen his own political position by successfully concluding the negotiations with China.

Miki and Kosaka have also moved to be more accommodating to the USSR over the MIG-25 incident. In a meeting with Foreign Minister Gromyko at the

UN on September 28, Kosaka confirmed Japan's intention to return the aircraft and reportedly reached agreement to begin negotiations in Tokyo over the details of the transfer.

Japan has in general been tough in rebuffing Soviet pressure regarding the MIG-25. Miki's decision to be more accommodating may reflect his concern over Japanese press criticism that the government is being too harsh toward the USSR. The Prime Minister has maintained all along that the incident should be settled without damaging bilateral relations. [redacted]



PERU 45-49

The settlement on September 22 of the year-old dispute over the nationalization of the US-owned Marcona iron-ore facility buys some time for Peru to resolve its shaky financial situation.

The settlement will spur an early agreement on the \$350-million loan package that Peru has been negotiating for the past

six months with private banks in Canada, Western Europe, Japan, and the US. The bankers had insisted on a resolution of the Marcona dispute before they would finally approve the loan. We now expect the loan agreement to be signed by mid-October.

The loan, which will be used in part to pay the settlement cost of \$37 million for the Marcona properties, will obviate the need to reschedule debt service payments this year and will enable Peru to limit scheduled import cuts.

The settlement will allow Peru to restore the Marcona facility to full production within two months, after which iron ore shipments should yield about \$120 million annually in export earnings.

With the benefits of rising exports of iron ore and copper as well as expected self-sufficiency in petroleum, Peru's current-account deficit is likely to drop 50 percent in 1977 from \$1 billion this year. Peru's petroleum import bill will be reduced from \$200 million this year to \$20 million in 1977 as Amazon Valley oil projects and the Trans-Andean pipeline are completed.

Next year, we expect Peru's gross national product to increase slightly, and rising supplies of imported and domestic goods should cause inflation to fall. [redacted]

N.S. Brazil: Tighter Control Over Economic Planning

President Geisel, concerned with the rapidly mounting national debt and attentive to recent press disclosures of official corruption, appears to be tightening his control over economic planning.

Geisel has decided on the following steps:

- Cabinet ministers are not to seek foreign funds without prior consultations with Geisel's planning secretariat and the central bank.
- Any expansion of project costs, beyond limits approved by Geisel, must be reapproved by him.

- Projects that require foreign financing must stay within the limits already set for imports.

Brazil's current-account deficit has grown from about \$1.5 billion in the early 1970s to \$6.8 billion in 1975 and will probably be around \$5.8 billion this year.

Financing these deficits drove the national debt from \$10.2 billion in 1972 to \$24 billion in 1975, and it is expected to reach \$27 billion by the end of 1976. Servicing its current debt obligation absorbs 40 to 45 percent of Brazil's foreign exchange reserves. [redacted]

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Party chief Gierk and his colleagues are facing their most critical test. If they cannot bring about a demonstrable improvement in the economy they will be unable to regain public confidence. They know another round of rioting like June's would almost surely end their tenure.

69-73

Poland: Troubles Ahead

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[Redacted]

The success of the Polish people in forcing the regime to reverse its decision in June to raise food prices continues to be reflected in the tense political atmosphere in Warsaw.

Party and government leaders are postponing decisions on critical economic problems. At the same time, they are unable to hide the fact that the decisions, when they do come, will confirm the public's worst fears. In increasingly frank terms, they are warning that a long period of belt-tightening is ahead. Tensions will remain high as the sullen and distrustful Poles watch the leadership struggle with a welter of problems of its own making.

The badly shaken regime must somehow:

- Regain public confidence.
- Manage the politically explosive and economically urgent problem of raising prices.
- Overcome shortages of consumer goods, especially meat.
- Proceed with economic development at a time when the burden of hard-currency debt looms ever larger.

In Eastern Europe, shortages of food and consumer goods and the problem of keeping prices at subsidized levels are not confined to Poland. It is in Poland that these problems have the greatest potential for creating severe political instability.

A Long History

The Poles have a history of contentiousness. During the 19th century, when the country was occupied by foreigners,

Poles came to regard civil disobedience as a patriotic virtue essential to the re-emergence of the Polish state. The period between the world wars was too brief and chaotic to alter these beliefs, and opposition to authority again became standard after the Communists took power.

Although Communist rule is accepted as a fact of life, the party has never been fully accepted. Many, if not most, Poles believe the party rules Poland only because the Soviet Union is its neighbor. Under these circumstances, perhaps the only way the party can achieve legitimacy in the eyes of the public is to provide a continuously improving level of living.

When Edward Gierk became party chief in December 1970, he launched a program to attain rapid economic growth that required massive imports of Western capital goods. Investment boomed and Poland achieved an annual economic growth rate of 7 percent. Frequent wage increases and controlled prices enabled the real personal income of the average Pole to grow by 9 percent a year.

Consumption increased sharply, but because the regime was unable to provide enough attractive consumer durables, a large share of the growth in consumption went into food. Consumption of meat, supported by the growth of the domestic fodder base, increased about 32 percent between 1970 and 1975.

The population has become accustomed to rates of increase in food consumption that are no longer sustainable. Compounding the problem since 1974 has

been bad weather, which resulted in a decline in grain and fodder output needed to support meat production.

The Polish leadership, with the events of 1970 very much in mind, was unwilling to take the plunge and raise food prices until June of this year. Former party leader Gomulka fell because he raised prices in 1970. Gierk, on coming to power following widespread and bloody rioting, restored the old prices. They have not risen since, despite burgeoning food subsidies that rose from less than 6 percent to 14 percent of budget outlays between 1970 and 1975.

The Poles would probably have accepted small price rises over the past few years with only a moderate amount of grumbling, but party leaders waited until June. Then they compounded their earlier mistake by announcing very high increases.

Their decision clearly caught the public off guard and was almost certainly taken without close soundings of either the party rank and file or the public at large. The ensuing riots forced withdrawal of the proposals one day after they were announced.

Tensions have remained high. The Polish people, anticipating price hikes, have been hoarding many consumer items, thus creating additional shortages. One official recently said that a "wartime mentality" had taken over. The regime has been forced to introduce sugar rationing.

In an effort to cool the popular temper, the regime has decided to delay price in-

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creases on food for at least a year, and possibly until mid-1978, and has promised to "consult" extensively with workers before any changes are made.

Problems in the Party

Party leader Gierek's status within the leadership is clearly weaker than it was before June, and a certain amount of jockeying for position is under way. Some efforts to find a scapegoat are reportedly being made in the Politburo, and there are divergent opinions on how best to proceed on the sensitive economic problems.

The relationship between Gierek and Prime Minister Jaroszewicz appears to be strained. [redacted] Gierek approved the June price package only after constant pressure from the government side, especially from Jaroszewicz. The subsequent riots reportedly triggered a "profound psychological trauma" in Gierek, and he probably blames the government for bad advice. Since June, he and Jaroszewicz have not appeared together as frequently as in the past.

Since the rioting, party politicians have reportedly decided they must reassert their supremacy over the economic experts in the government. In an unusual move, Gierek recently attended a session of the Council of Ministers. The party created five special party-government teams to tackle the most sensitive economic problems. These will apparently bypass, to some extent, existing government bureaucracies.

Party leaders will try above all to preserve the semblance of unity; in making policy, they will move cautiously. The recent discussions on agriculture by a Central Committee plenum and by the Parliament produced no new ideas on how to solve problems in this key area.

The Church

For most of their history, Poles have equated being Catholic with being Polish, and Gierek must take great pains to maintain good relations with the powerful Catholic Church. Throughout his tenure, a delicate truce has existed between church and state. The regime has not given up its opposition to the church; it hopes by concentrating popular attention

on economic development to win in a long-term battle of attrition. Stefan Cardinal Wyszynski has not challenged the regime during difficult economic times, but over the last several weeks has become noticeably more aggressive in asserting the church's rights.



Edward Gierek

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Gierek's current weakness was apparent in his call last month for church-state cooperation. The episcopate in return asked the faithful for an all-out effort to solve economic problems, but at the same time tested the regime's attitude by calling for greater church access to the media. The party is not likely to make this concession.

Economic Prospects

The need for corrective measures comes at a time when Poland's options are limited. Because of its severe problems with hard-currency balance of payments, Poland has little flexibility in foreign trade and the Soviets are not likely to provide any significant assistance.

Warsaw's decision to freeze food prices for at least another year will only aggravate the supply problem. Wages cannot be frozen without generating adverse worker reaction. Nor can the regime force the farmer to increase agricultural deliveries without irritating yet another segment of the population.

The pressure on meat supplies is not likely to ease soon. Livestock inventories are down because farmers—faced with fodder shortages for several months—could not maintain them and resorted to some distress slaughtering. Herds cannot be rebuilt quickly. It will be impossible—at current prices—to satisfy the demand for meat and meat products for at least a year.

This situation will be aggravated by the regime's recent decision to put a lid on free market prices for meat and produce. While a short-run sop to urban workers, the ceiling will intensify food shortages because urban demand for quality foods will increase and the farmer will make fewer products available.

Warsaw may ration meat as a short-term measure to achieve equitable distribution and reduce queues. Rationing, however, would not increase available supplies and a recent press article suggests the government may have decided against this course for now.

Poland's only viable option is to increase supply by importing extraordinary amounts of grain and fodder. Imports are projected at 7-million tons—about the same as last year—in the marketing year ending June 30, 1977. Most will come from the West, requiring over \$1 billion in hard-currency expenditures. The Poles hope to obtain some 4-million tons from the US alone. Warsaw is also increasing meat imports—mostly from the West—and making further cuts in meat exports, an important source of hard currency.

Poland's heavy burden of hard-currency debt will force the regime to cut back on imports of industrial materials in order to import large quantities of grain and fodder for at least another year. Another large deficit—on the order of the \$3

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billion incurred last year—is likely in 1976, and the debt will probably rise to \$10 billion, up from \$6.9 billion at the end of 1975.

Because of probable difficulties in obtaining the financing needed to cover continued large deficits and to meet debt obligations, Poland may be forced to allow little if any growth in total hard-currency imports over the next few years. Without a vast improvement in

agricultural production, the Poles will have to continue to hold down imports of industrial materials. Thus, the regime may well have to accept a reduction in its economic growth plans. Before doing so, however, it is likely to seek help from the West in refinancing or rescheduling part of the debt.

Grappling with these thorny and frustrating problems and with the aftereffects of the June riots have put the

leadership to its most severe test since the ouster of Gomulka.

Gierek and his colleagues know that without demonstrable improvement in the economy, they cannot regain the confidence of a public increasingly conscious of its own power and that one more upheaval would almost certainly mean the end of their tenure.

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An increase in Soviet crop production this year has been offset by declines in the output of livestock products.

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USSR: Agriculture Forecast

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Total agricultural output in the USSR this year will be about the same as in the poor year of 1975. A large increase in crop output will be offset by a sharp decline in livestock production.

We estimate Soviet grain production this year will be 200 million metric tons or more. Although grain is the USSR's single most important crop, other crops as a group rival grain in their impact on agricultural production and on the country's net import position.

Potatoes—an important food and feed crop—are a partial substitute for grain and can either make up part of a grain shortfall when plentiful or substantially swell Soviet requirements for feed grain after a poor crop. Sunflower seeds supply three quarters of the vegetable oil, and sugar beets provide four fifths of the sugar consumed yearly in the USSR. Cotton exports earn sizable amounts of hard currency.

Our preliminary estimates indicate that the Soviets will harvest about 90 to 95-million tons of potatoes, close to their average production for the past five years, and about 85-million tons of sugar beets,

28 percent more than in 1975. Cotton and vegetable crops will approach all-time highs, and the sunflower seed crop will be only 10 percent below the 1973 record level.

The 19-percent jump in crop production will be offset by an estimated 13-percent drop in output of livestock products—the result of earlier distress slaughtering. Meat production probably will be about 12.5-million tons, off 17 percent from 1975. Milk production will be roughly 85-million tons, a drop of 6-million tons from last year, and egg output could be off as much as 17 percent.

The expected increase in the availability of feed offers hope to consumers for some relief from shortages of livestock products. September should see a moderate increase in meat production from the severely depressed July level, but shortages will persist through the year.

The current expansion in herd inventories reflects good pasture and forage crops during the summer and the larger grain harvest. By January 1, hogs will reach an estimated 90 percent of the January 1, 1975, level, and poultry, 95 percent; these are more rapid recoveries than occurred following the distress

slaughtering in 1963.

The number of cattle, which has changed little throughout the period, will be about 2 percent above January 1, 1975, levels. The average slaughter weight of cattle, however, will still be down substantially.

The improved crop prospects for the year reduce the need for imports of agricultural commodities—notably grain—and release for export greater quantities of cotton, sugar, and vegetable oil. Last year's poor harvest disrupted the USSR's traditional agricultural trade patterns as imports of farm commodities mushroomed while exports fell substantially.

Unless there are quality problems with this year's crop, we expect the Soviets to hold grain purchases to about 14-million tons. At current prices, purchases of this size would cost roughly \$2 to \$2.5 billion. Last year's purchases of 27-million tons cost almost \$4.5 billion.

With a good sugar beet crop, the USSR may increase sugar exports. Exports of vegetable oil will be expanded, cotton will again be available for sale, and meat purchases will drop to more normal levels.

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Recent student protest demonstrations highlight General Torrijos' declining popularity. The decline has been brought on in part by the General's inability to deal effectively with growing economic difficulties.

Panama: Domestic Problems for Torrijos

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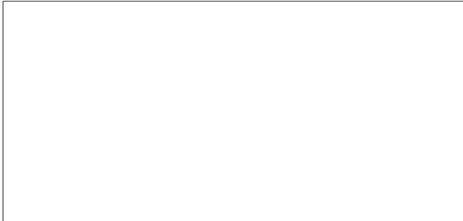


Panamanian strongman Omar Torrijos is facing his most serious domestic problems since he consolidated his hold on power in 1969. His recent performance, particularly his failure to deal effectively with the demonstrations in the past two weeks, has probably reduced his popularity to an all-time low and opened him to some criticism from other officers in the country's only military force, the National Guard.

The student-incited protests have highlighted both the government's economic difficulties and Torrijos' declining popularity. Although the government finally quelled the disorders with a strong show of force, preventive arrests, and the temporary closing of schools, it has not begun to deal with its many problems.

For the first time, there is disgruntlement in the National Guard—the only force capable of removing Torrijos from office. In previous crises, the Guard has lined up behind him.

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The Guard expects further student

demonstrations, and there is considerable sentiment among middle- and high-ranking officers for a hard line.

There does not appear to be any imminent threat to Torrijos. The top officers do not appear as yet to have seriously considered alternatives to him. These leaders are men who threw in their lot with the general at the time of an abortive coup attempt in 1969 and hold their positions because of their loyalty to him. After nearly eight years, they feel identified with the programs and goals of the government.

Rival factions in the Guard have tended to compete with one another rather than to challenge Torrijos. At present, military leaders are probably still confident that they can ride out difficulties over the next several months with Torrijos at the helm.

The top military men are ambitious, however, and could be ruthless. This is especially true of, Lieutenant Colonel Noriega. He, Colonel Garcia, and fellow general-staff member and Minister of Agriculture Lieutenant Colonel Paredes, are the most powerful officers after Torrijos. In the event of sustained disorders, especially if Torrijos is again viewed as failing to exercise strong authority, they might attempt to remove him.

The military, having been in power since 1968, would not return to the sidelines. Colonel Garcia, next in line in the military hierarchy, would probably take over the National Guard at least in-



Omar Torrijos

AP

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University of Panama students flee tear gas thrown by National Guard troops

“destabilization” efforts had little impact. The refusal of students and the general public to be diverted is one measure of their concern with the country’s economic problems.

These problems are such that there is no short-term solution in sight. The financial squeeze is likely to get worse in the months ahead. Torrijos’ advisers are considering at least two remedial moves—raising taxes and easing the burdens on business of the 1972 labor code. Both could be politically explosive.

The labor code in particular was one of the symbols of the “revolution.” It significantly increased worker benefits and was the most popular move any Panamanian government had taken on behalf of labor. The worsening economic situation and continual complaints from businessmen led the government to inform union leaders on September 10 that changes were in the offing.

Students will be more likely to demonstrate against unpopular government policies in the future. Even the large government-manipulated student federation supported the initial call for price rollbacks. Pro-government student leaders are concerned about losing control of the student movement because ultra-left groups, which have already been recording gains, are further boosted by the National Guard’s actions against previously uninvolved students.

A measure of the continued student antagonism toward the government was the low turnout—about half government expectations—for the dialogue between student leaders and Vice President Gonzalez following the first week of disorders.

Torrijos has believed that a new canal treaty with the US would ensure his political future. It is becoming increasingly apparent, however, that—in the absence of success on the canal issue—his management of the economy and the general domestic situation could be critical. For the most part, his home audience appears no longer willing to be distracted by his unproductive international performances.

AP

initially.

Economic Pinch

The prospect is that deteriorating economic conditions will result in further disorders in the months ahead. The government could be on the verge of a major fiscal crisis. Almost all economic indicators plummeted again in the second quarter of this year, and unemployment has nearly doubled in twelve months.

With the poor feeling most of the pinch of higher prices and unemployment, the administration is being charged with favoring the upper classes. This undercuts one of the government’s basic claims—that it, unlike its predecessors, represents the aspirations of middle- and lower-income groups.

Declining Popular Support

Of almost equal significance is the growing belief—particularly among students and the poor—that Torrijos has betrayed the “revolution.” Top military officers are now seen as little different from venal government officials of the past. It is becoming common knowledge that Torrijos enriches himself in private business deals and that his subordinates follow suit.

The government’s well-known manipulation of the media, its disregard of constitutional rights, and Torrijos’ seeming abandonment of his original role of populist reformer in favor of aspiring to become a third world leader contribute to further domestic dissatisfaction.

One presumed strength of the regime—Torrijos’ ability to negotiate a new canal treaty with the US—may also be starting to work against it. For nearly eight years, the general has promised that “next year” a pact will be signed. Radicals argue that Torrijos would have to sell out Panama’s interests to secure an accord.

Students and Labor

The recent protests forced Torrijos to act against students—whom he has singled out as one of the principal partners in his “revolution.” During the height of the disturbances there were rumors that Torrijos was losing control. Although they appear to have been groundless, their wide circulation is indicative of the unsettled public mood.

The government’s effort to throw up a smoke screen with charges that the demonstrations resulted from US

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